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To Department of State, Washington

May 17, 1957

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Subject: Weekly Economic Summary

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1. (UNCLAS/REFID) Move to Transfer Volkswagenwerk to Private Ownership.
 At CDU party convention in Hamburg this week Egon von Knebel announced introduction into Bundestag of bill providing for conversion to private ownership of Volkswagenwerk.

According to Bill, Volkswagenwerk, now operated under joint administration of Federal and Land Lower Saxony, is to be declared Federal property in order to establish ownership and title to sell. Bill also provides that present limited liability company (Gmbh) is to become stock company and capital of DM 60 million to be revalued accordingly. Ten million registered voting shares of DM 50 denomination are to be offered to public. Private persons only to be eligible for these "people's shares" and maximum to be held by one person to be DM 25,000. Rebate of 20 percent on par value of shares to be granted to buyers with annual incomes of DM 9,000 or less, and of 10 percent to buyers with incomes of up to DM 15,000. Sale of shares would be blocked for three years. Bill, however, does not force Federal Finance Ministry to sell shares within a given time.

According to Knebel, proceeds of sales should not be kept as "sterile hoard". Press believes he is planning creation of revolving fund similar to WFP Special Fund granting investment loans to economy, the fund to be utilized for economic development after German reunification.

Press cites comments from opposition leaders that CDU move is "cheap election propaganda". Press has also alluded to expected opposition of Federal Finance Minister to bill, who has so far been in no hurry to return government controlled plants to private ownership. It was recalled that in January Bundestag debate he indicated transfer of Volkswagen plant was out of question before lawsuit of "Volkswagenasperer" (those who made deposits before 1945 toward future delivery of Volkswagen) was settled. Also commented in press that issue may revive old rivalry in economic policy questions between Knebel and Gaeffner.

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2. (OFFICIAL USE ONLY) Coal Supply Situation. While last week's mine workers' union move for pay boosts for surface workers plus additional housing benefits for all miners (Weekly Summary, May 10, 1957) added to concern over future course of coal prices, this week saw developments connected with overall coal supply situation in FedRep. Spokesman for Ruhr Coal Advisory Office stressed that 90 percent of FedRep's energy requirements are covered by coal, compared to 75 percent for all Europe, and that for some time to come, coal will play essential role in energy supply. He said question of coal saving should be given more attention due to high coal imports (11.4 million tons from US in 1956). Assorted an estimated 9 million tons could be saved annually, especially in household consumption, and that problem will be more acute should production decrease as a result of shorter work week. Meanwhile, effective May 1, Ruhr Coal Sales Organizations are granting rebates on prices for household coal as an incentive for stocking coal during summer months. Rebates per ton vary from DM 4 in May to DM 2 in August.

Supplying German householders with coal at reasonable prices is political issue, especially in election year. Government using various indirect psychological measures, as above, to urge householders to "buy early and cheap" as means of conveying information on tight coal situation without raising spectre of "coal shortage". Coal Sales Organizations plan reduction of allocation to coal dealers by 20 percent of 1956-57 delivery figure, according to unofficial comment by Economics Ministry expert.

3. (UNCLASSIFIED) Second reading of Budget for 1957/58. Last week Bundestag began second reading of Federal budget for German fiscal year 1957/58 and passed with small changes several sections of budget including budgets of Federal Chancellery, Foreign Office, and Federal Ministry of Interior. Rejected demands of opposition parties for additional expenditures to be financed mainly at expense of defense budget amounting to DM 1 billion each for air raid protection and education (scholarships, research and school construction). Bundestag is expected to complete second reading of budget next week. Main issues will be defense budget and those of Federal Ministries for Economics, Transport, Agriculture and Labor, but no major changes in committee draft expected.

4. (UNCLASSIFIED) Federal Cash Budget for German FY 1956/57. Preliminary cash data on FedGovt budget for German fiscal year ending March 31, 1957, has been published by Central Bank (BdL). During this period, total cash receipts amounted to about DM 28.7 billion, total cash expenditures to about DM 28.8 billion. Domestic transactions under cash budget resulted in surplus of receipts over expenditures of about DM 2.1 billion, while foreign transactions showed deficit of about DM 2.2 billion.

BdL estimates that cash expenditures for German military build-up (including transfers into its guarantee fund) amounted to some DM 3.4 billion in GFY 1956/57, about DM 3.9 billion less than budgeted. Approximately DM 1.4 billion out of DM 3.4 billion went for military purchases

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abroad. Due to slight cash deficit of 1956/57 Federal budget and to internal debt retirement of DM 220 million, Federal cash reserves were reduced by about DM 0.3 billion during year and amounted to about DM 5.9 billion on March 31.

5. (UNCLASSIFIED) Bill to Increase Export Guarantee Ceiling. Federal Cabinet has approved suggestion of German Federation of Industry (BDI) to raise ceiling of Federal export credit guarantees (administered by Hermos Kreditversicherungs AG) from DM 7.5 to DM 9.5 billion, and has submitted respective bill to Bundesrat. Decision was subject to some criticism on grounds of cyclical situation and balance of payments consideration—it can hardly be claimed that exports need further promotion while Fedrep is running such large surpluses. Nevertheless, decision reportedly made because at least 75 percent of credit guarantees are demanded in connection with exports of investment goods to underdeveloped countries. Federal Finance Minister is, however, understood to be trying to raise percentage of political risk which must be borne by exporter from 20 percent to 25 percent, an action which would not require legislative action. At present, exporter must also bear 30 percent of commercial risk. It should be noted that raising of guarantee ceiling will not necessarily increase availability of export credits, as export credit ceiling of Ausfuhrokredit AG with BKL was recently reduced from DM 600 to 500 million.

6. (UNCLASSIFIED) Labor. About 9,000 city employees in Dortmund (Ruhr) planning to stage union-backed sitdown strike May 16 to enforce early implementation of five-day week in public administration. Action may be beginning of comprehensive union move to break resistance of Federal, Land and local Governments to introduction of shorter hours for public service employees. Dortmund apparently selected as test case because it is major Ruhr industrial center and because SPD-dominated city administration evidently sympathizes with union demands.

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